



5 May 2020

ASX Announcement

Execution of non-binding Term Sheets for the funding of the Rail Link to connect the Boikarabelo Coal Mine to the Transnet Main Line

Resource Generation Limited (ASX:RES/JSE:RSG)(**Company or ResGen**) is pleased to announce that its subsidiary, Ledjadja Coal Pty Ltd (**Ledjadja Coal**), has entered into non-binding equity and debt term sheets (collectively, the **Term Sheets**) with Pan African Infrastructure Development Fund 2 SA and PAIDF2 LLC (**PAIDF 2**) or any one of them (**Senior Lender and Investor**) under the management of Harith General Partners Proprietary Limited (**Harith**) for the funding of the Boikarabelo Coal Project Rail Link (**Rail Link**).

Although interim approvals have been given by Harith at various stages of the negotiations, the Term Sheets are not legally binding on the parties until final approval by the Harith Investment Committee and Board.

The finance arrangements contemplated in the Term Sheets are not exhaustive and are indicative only and remain subject to, among other things, the required approvals and the parties reaching agreement on definitive and legally binding documentation recording the terms and conditions set out in the Term Sheets and subsequent satisfaction of all conditions precedent.

The Company's Interim Managing Director and Interim CEO, Leapeetswe "Papi" Molotsane, commented:

***“Execution of these terms sheets is very significant and marks another important milestone in our pursuit of full funding for the construction of the Boikarabelo Mine. The Mine Funding Package approved by Shareholders on 7 April 2020 includes a number of conditions precedent including finalisation of the rail link funding arrangements and execution of these term sheets brings us a step closer to Financial Close of the funding packages. All parties to this transaction have committed to secure the final approvals and to execute the legally binding documentation as quickly as possible and hopefully by end May 2020.*”**

In parallel with the negotiation of the rail link funding package, we continue to make good progress on satisfaction of all other conditions precedent to the mine funding package.”

- **Background**

The Company advised the market (ASX Announcement: 17 February 2020) that negotiations were underway to secure funding for the construction of a 44km rail link to join the Boikarabelo Mine (**Mine**) with the Transnet main line. It was noted that negotiations were proceeding on the basis of establishing a special purpose vehicle (**SPV**) to raise the required funds, construct, own and operate the rail link in exchange for a commercially agreed transport tariff arrangement with Ledjadja Coal. Bula Waterberg Rail (Pty) Ltd has now been incorporated in South Africa as the SPV for this purpose (**Borrower**).

The rail link negotiations had been proceeding on the basis of a R750m (approx. A\$62.4m at current exchange rates) funding package with Ledjadja Coal owning a 49.9% interest in the SPV in lieu of contributing certain assets and licences associated with the rail link.

A recent review of the rail link funding requirements has identified the opportunity to reduce the total funding requirement to approximately R700m (approx. A\$58.3m at current exchange rates).

- **Rail Link Funding Partner**

Harith (www.harith.co.za) is a well established infrastructure fund manager developing critical infrastructure projects across the African continent. Harith has been involved with several high profile transactions and run two funds with US\$1 Billion under management.

- **Composition of the Rail Link Funding Package**

The funding package has a debt component and an equity component, with each of these components being the subject of a separate term sheet. A summary of the key non-binding terms contained in each term sheet is set out below:

- (i) Debt Component**

The debt facility will comprise a Senior Loan of up to the US dollar equivalent of R397m (approx. US\$21.2m at current exchanges rates). The loan will be disbursed in Rand but be expressed as a US dollar loan for the purposes of repayment.

The term of the Senior Loan is nine years from the date of achievement of Financial Close¹ for the rail link funding arrangement and will be made available for the period from Financial Close to a date three months after the scheduled completion date for construction of the rail link.

Any costs associated with unwinding the funding arrangement, including hedges or forward cover taken out by the Senior Lender and Investor after execution of the Term

1. Defined as the date on which all conditions precedent (CPs) to utilising the Senior Loan Facility have been fulfilled to the satisfaction of the Senior Lenders or waived

Sheets will be borne by Ledjadja Coal or Resgen irrespective of whether the transaction proceeds to completion.

Loan repayments will be made in accordance with a quarterly repayment schedule to be determined with reference to the final approved financial model for the rail link project. The first scheduled repayment under the Senior Loan facility shall occur on a date falling 28 months after Financial Close for the rail link funding. This timing allows for alignment with targeted completion and operational readiness of the coal handling and preparation plant at the Mine.

The Senior Loan will front rank and will be secured by a comprehensive security package over all or substantially all of the Borrower's assets including a pledge over shares held by shareholders in the Borrower. It is important to note that security arrangements associated with the rail link funding will be ring-fenced to the SPV i.e. there will be no impact on the security arrangements pertaining to the Mine Funding Package recently approved by Shareholders.

The interest rate will be 12% p.a. based on the underlying US dollar outstanding balance and be payable on a quarterly basis. Provision exists for an interest capitalisation and capital grace period that extends six months beyond the planned rail link construction period with capitalisation on a quarterly basis.

Default interest will apply at a rate of 200 basis points above the agreed interest rate.

Financial covenants will be applied based on debt service cover, interest cover and debt:equity ratios.

All legal and other expenses reasonably incurred by the Senior Lender in connection with the negotiation, preparation and execution of the finance documentation will be borne by the Borrower.

An exclusivity period of three months from the date of signing the Term Sheet applies to prohibit any further fundraising activities by the Borrower, Ledjadja Coal and Resgen in relation to the Mine. In addition, a break fee applies should the rail link funding reach Financial Close with another funder within 12 months of signing the Term Sheet.

Set out under a separate heading below are the material conditions precedent that apply to the Term Sheets.

(ii) Equity Component

The Equity Term Sheet contemplates, subject to satisfaction or waiver of all relevant conditions precedent, that equity finance will be made available by the investors in the SPV which, together with the debt funding arrangements contemplated under the Debt Term

Sheet, will fund the development and construction of the rail link to the Mine. The equity finance will be provided by subscribing to shares in the SPV on the following basis:

- 50.1% by the Investor (PAIDF 2) through the subscription for shares in the Borrower for the consideration of R300m (approx. A\$25m at current exchange rates); and
- 49.9% by Ledjadja Coal by the transfer and registration of servitudes crossing 11 properties and transfer the development capital work expended to date on the rail link which has a book value of R165m (approx. A\$13.7m at current exchange rates).

The arrangement will be governed by a Shareholders' Agreement and a Memorandum of Incorporation for the SPV. The Shareholders' Agreement to include certain reserved matters consistent with the nature of an SPV and providing a protection of the rights established under the Term Sheets. Each Shareholder will have the right to appoint or replace one director for each complete 20% holding in the SPV. An independent director is also expected to be appointed to the Board. The first Chairman of the Board (appointed from the existing Board members) to be appointed by Ledjadja Coal until the end of construction and thereafter to be appointed by PAIDF 2 and finally the position of chairperson will be rotated on a two yearly basis.

A twenty year rail tariff agreement will be entered into between the Borrower and Ledjadja Coal which achieves an internal rate of return for the Investor of at least 15% in US dollar terms using the forecast production profile from the Mine.

The funding for construction of the rail link to be contributed initially from the funds raised from the share subscription followed by drawdown under the Senior Loan facility.

Resgen and or Ledjadja Coal to have the right to an annual haulage capacity of not less than 6 million tonnes and a first right to any additional tonnes from the Mine and preferred tariff terms (discount) for any additional tonnes.

Distributions of 100% of the free cashflows generated by the SPV will be distributed on a quarterly basis.

Standard pre-emptive rights to apply to any proposed transfer or sale of ordinary shares in the SPV with no drag or tag along rights. Any agreed sale of equity and/or the business of the SPV to Transnet at some future date can only occur if the existing usage rights of Ledjadja Coal are retained and the remaining conditions set out by the remaining shareholders in the SPV are fulfilled.

Exclusivity and break fee terms consistent with the Debt Term Sheet.

- **Material Conditions Precedent**

A number of conditions require satisfaction or deferral or may be waived by the Senior Lender before Financial Close. These conditions include those customary for Lender's to request to manage risk exposures on transactions of this nature including, but not limited to:

- Harith Investment Committee and Board approval;

- Execution of the Share Subscription and Shareholders' Agreement of the Borrower;
- Execution of all finance documents;
- Any regulatory approvals including the registration of each servitude to effect the transaction;
- Notice that the transaction security has been granted; and
- The Mine Funding Package being fully funded and all conditions precedent for commencement of the Mine having been met.

Further information

The Company will keep the market informed on progress in accordance with its continuous disclosure obligations.

On behalf of the Board

Lulamile Xate

Chairman

For further information please contact:

Lulamile Xate, Chairman on info@resgen.com.au or +27 11 010 6310

Mike Meintjes, Company Secretary on mmeintjes@resgen.com.au or +61 413 706 143

Media enquiries:

South Africa: Marion Brower / Charmane Russell on +27 11 880 3924

About ResGen:

Resource Generation Limited (ResGen) is an emerging ASX and JSE-listed energy company, currently developing the Boikarabelo Coal Mine in South Africa's Waterberg region. The Waterberg accounts for around 40% of the country's currently known coal resources. The Coal Resources and Reserves for the Boikarabelo Coal Mine, held through the operating subsidiary Ledjadja Coal, were recently updated based upon a new mine plan and execution strategy. The Boikarabelo Coal Resources total 995Mt and the Coal Reserves total 267Mt applying the JORC Code 2012 (ASX Announcement :23 January 2017- In accordance with Listing Rule 5.23.2 the Company confirms that it is not aware of any new information that would impact on the Reported Coal Resources and Coal Reserves). Stage 1 of the mine development targets saleable coal production of 6 million tonnes per annum. Ledjadja Coal is a Black Economic Empowerment subsidiary (BEE) operating under South Africa's Broad-based Black Economic Empowerment Act, Section 9(5): Codes of Good Practice

Based on the information currently available to it, ResGen is aware that that PIC, Noble Group and Altius Investment Holdings each have substantial shareholdings in ResGen.

Forward looking statements

This announcement contains certain forward-looking statements. Forward-looking statements include those containing words such as “anticipate”, “believe”, “expect”, “project”, “forecast”, “estimate”, “likely”, “intend”, “should”, “could”, “may”, “target”, “plan”, “consider”, “foresee”, “aim”, “will” and other similar expressions. Any forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice and involve known and unknown risks and uncertainties and other factors which are beyond the control of ResGen. This includes any statements about the terms on which ResGen might obtain funding from the Senior Lender and Investor. To the maximum extent permitted by law, the directors of ResGen, ResGen and any of its related bodies corporate and affiliates, and their officers, partners, employees, agents, associates and advisers disclaim any obligations or undertaking to release any updates or revisions to the information in this announcement to reflect any change in expectations or assumptions, do not make any representation or warranty, express or implied, as to the accuracy, reliability or completeness of such information, or likelihood of fulfillment of any forward-looking statement or any event or results expressed or implied in any forward-looking statement, and disclaim all responsibility and liability for these forward-looking statements (including, without limitation, liability for negligence).

The term sheets referred to in this ASX announcement are non-binding and indicative in nature. Negotiations regarding the transactions described in those term sheets are ongoing and incomplete and there is no certainty that a transaction will be concluded based on the terms set out in those Term Sheets (or at all). ResGen makes no representations or warranties whatsoever as to the outcome of its engagement with the Senior Lender and Investor.